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PRIORITIES AND STRUCTURAL REFORM OF UNIDO

Proposals by the Director-General

Summary

In compliance with General Conference decision GC.4/Dec.22 and Board decision IDB.11/Dec.4 proposals are presented on the future policy framework of UNIDO with a view to enabling the Board to submit its recommendations to the General Conference at its fifth session.

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Introduction

1. The present proposals have been prepared in response to decisions of the General Conference and the Industrial Development Board. In its decision GC.4/Dec.22, the Conference requested the Board to pursue the examination of the organizational and staff structure of UNIDO with a view to reaching a decision that could be adopted by the Conference at its fifth regular session.

2. At its eleventh session, in its decision IDB.11/Dec.4, the Board noted that the Director-General was reviewing the programme and structure of UNIDO in the light of current economic industrial and technological developments and decided to resume its eleventh session from 28 to 29 October 1993 for the purpose of considering his proposals in that respect, and finalizing recommendations therein on the basis of consensus for submission to the General Conference at its fifth session. The Board also requested the Director-General to communicate his proposals on the future policy framework of UNIDO in conjunction with the submission of his proposals on the organizational and staff structure of the Organization, together with the updated information on the implications of the United Nations system-wide reforms, as well as information regarding the current structural reforms in the other United Nations specialized agencies to Member States for their consideration in an appropriate time before the resumed eleventh session of the Board.

3. The present proposals derive from the general agreement that the Organization urgently needs to undergo both restructuring and reform. A decision by the General Conference on the basis of these proposals is therefore of crucial importance. The present and future internal and external circumstances of the Organization were considered in the light of the current situation and trends, as well as in the light of views expressed by Member States during recent consultations and debates, above all in the informal consultations on relative priorities of the medium-term plan 1994-1999 established by decision IDB.10/Dec.8. It should also be noted that certain pertinent questions still remain open, such as the outcome and pace of the overall restructuring of the United Nations (see paras. 14-19).

4. The present report is drawn from comprehensive analyses and reviews undertaken by the Secretariat in the past few months, above all in the context of the work undertaken by the Task Force on Priorities and Structural Reform of UNIDO established by the Director-General in June 1993 (UNIDO/DG/B.167/Rev.1). The present report provides the basis for reassessing and reorienting the priorities and programmes of UNIDO in the light of recent trends and emerging challenges. It also outlines the concomitant changes in the organizational structure and - most importantly - the requisite reforms in internal management and procedures.

I. FORCES OF CHANGE AND THE NEED FOR REFORM

A. Changes in the external environment of UNIDO

5. Since UNIDO became a specialized agency, new driving forces and policy changes in the global economy have affected the roles of Governments, enterprises and industrial institutions alike, the pattern and conditions of production and the flows of trade, investment and technology. Most developing countries have shifted from import substitution and regulatory industrial policies, supported by strong public ownership and state participation in industry, towards export-oriented, competition-driven policies - with a general emphasis on privatization and private sector development. This trend has been particularly pronounced in the countries of Eastern and Central Europe and as well as in the former Soviet Union, as they move away from a closed, central planning and public sector-dominated system towards open market-led development, based on private ownership.

6. The demand for UNIDO services has changed and stems from a greater number of countries than before. Whereas in the past UNIDO was expected to respond to government requests that were largely focused on public sector, inward-looking and planning concerns, the demand for UNIDO services is now shifting towards development requirements in the private sector. The emphasis now lies on advisory and technical services for the creation of an "enabling environment" conducive to private sector development and the mobilization of investment and other resources, as well as on technical cooperation and institutional support to enhance the competitiveness of key industrial subsectors in developing countries.

7. Parallel to overall policy deregulation, specific aspects of regulation and the provision of public goods attain increasing importance. This includes such aspects as environmental control, development and application of new energy sources, consumer protection, competition policies, industrial safety and industrial standards, as well as some trade-, investment- and technology-related issues.

8. The impact of industrialization on developing countries has varied considerably in terms of both overall economic growth and levels of industrial and technological development and capabilities. Some countries have registered a remarkable industrial performance and are moving rapidly towards technologically sophisticated industrial structures based on globally oriented strategies. Most developing countries, however, have lost considerable ground in particular with respect to technological developments and the development of competitive skills and capabilities. Some countries, including the growing number of least developed countries, have managed to establish only rudimentary and vulnerable industrial structures and continue to lag behind in terms of economic growth.

9. Even within many developing countries, economic development is highly polarized in terms of income distribution, social conditions and development prospects among various segments of the population, economic sectors and regions (both urban and rural areas). High and rapidly rising income levels as well as sophisticated industrial structures and technologies co-exist with stagnant backward regions and emergent pockets of poverty.

10. Industrial growth is a means of achieving overall socio-economic development. The actual and potential contribution of industry to reducing urban poverty, incorporating the rural poor in the production process, enhancing the status of women and other disadvantaged groups and preventing environmental degradation should put industry back

on the international agenda with renewed vigour. Today, equitable and sustainable development is the ultimate aim and industry is perceived as making a key contribution to that aim.

11. While industrial activity is among the causes of stress on ecosystems and contributes to environmental degradation, it also offers solutions by means of cleaner production and pollution prevention technologies. Private and public industries are key actors in attaining environmentally sustainable industrial development. As a consequence of the 1992 United Nations Conference on Environment and Development industrial development and environmental protection are no longer seen as necessarily conflicting goals. Systematic efforts, however, are needed to achieve their symbiosis.

12. Developing countries themselves determine their development process. They are primarily responsible for designing programmes best suited to their internal capabilities. It must not be forgotten that the vast majority of the resources for development do not come from donors or overseas investors, but from the developing countries. Multilateral agencies, bilateral donors and non-governmental organizations (NGOs) can help, but the commitment of the developing countries is the most essential factor. The final goal is self-sustained development that implies outgrowing the need for aid and attaining industrial cooperation among relatively equal partners.

13. No country can remain dependent on development aid for its economic progress. Developing countries, therefore, need to build up their own capabilities and mobilize domestic investible resources, as well as manage and maintain their development process. For this purpose, the development of human resources and skills is essential, as are efforts to ensure that foreign investment and technology inputs are effectively absorbed in the domestic development process.

B. Reform of the United Nations system

14. In recent years, international development assistance has been the subject of widespread criticism and concern. The United Nations agencies, international and regional development banks and bilateral aid agencies are being critically reviewed in terms of the direction, efficiency and impact of their programmes, as well as the quality of their projects. Practically all these organizations have found it difficult to meet the expectations that recipient and donor countries alike have placed in them with respect to maintaining the desired quantity and quality of assistance, reaching end-users effectively, administering funds efficiently and attaining the anticipated impact.

15. In this context, the United Nations system is also undergoing a process of restructuring. Mandates are being reconsidered, while priorities and structures are being reviewed in a number of distinct, yet closely interrelated areas. These include reforming the system of governance, improving coordination within the United Nations system, restructuring the United Nations Secretariat and enhancing the effectiveness and efficiency of the system's operational activities.

Structural reform

16. The major reforms in the General Assembly relate to: reducing the number of the main committees; enhancing the complementarity between the work of the General Assembly, the Economic and Social Council and their subsidiary bodies by eliminating overlap and duplication of work; reducing and controlling documentation; and rationalizing their agendas and work programmes through agreed periodicity, such as biennialization and triennialization. A strengthened mandate for the Economic and Social Council and an improved system of governance are under review with the aim of achieving closer cooperation and coordination between United Nations organizations. In that context, the structure and functions of other governing bodies including those of various United Nations commissions, the United Nations Development Programme (UNDP) and specialized agencies are also under scrutiny. The General Assembly and the Economic and Social Council are clearly moving towards greater coordination between, or even integration of, the activities of the United Nations organizations and a firmer overall structure for operational activities. In addition, emphasis is being placed on a clearer definition of the role of specialized agencies which should act as centres of excellence in keeping with their core mandates.

17. The main thrust of the ongoing restructuring of the United Nations Secretariat is towards coordination and decentralization, inter alia, by reforming inter-agency mechanisms and setting up unified United Nations offices in the field. The United Nations Secretariat itself has undergone some structural reorganization with the creation of three Departments, two of which are of direct relevance to UNIDO: the Department for Policy Coordination and Sustainable Development (incorporating the system-wide coordinating role, including the resident coordinator system, as well as all matters related to sustainable development) and the Department for Development Support and Management Services (incorporating the Office for Project Services (OPS) as a semi-autonomous entity).

18. The regional commissions are being strengthened significantly through the redeployment of functions and resources from United Nations Headquarters and the increased emphasis on the inter-agency coordinating role of the executive secretaries.

Operational reform

19. In addition to the above changes in mandates and organizational structures, the way in which operational activities are carried out by specialized agencies is also being changed. These changes that were initiated or reinforced by General Assembly resolutions 44/211 and 47/199 as well as UNDP Governing Council decisions on national execution and support costs include:

(a) A dramatic increase in the national execution of UNDP-financed projects to probably over 50 per cent;

(b) A considerable change in the structure and type of services that agencies are expected to provide to programmes and projects, as well as in the reimbursement for those services (successor arrangements);

(c) Increased attention to and demand for so-called "upstream" work with emphasis on policy analysis and advice, sector and subsector analysis, as well as development and implementation of integrated programmes;

(d) A move away from large numbers of small individual projects to larger, more comprehensive programmes of activities that are more closely integrated in national development programmes;

(e) A shift towards integrated field offices involving a reinforced resident coordinator role with all United Nations organizations constituting members of country teams under the chairmanship of the coordinator;

(f) A renewed attempt to introduce an overall framework for the activities of the United Nations system as a whole in a given country;

(g) Further decentralization and delegation of authority to the country level.

Impact on UNIDO

20. The far-reaching restructuring taking place in the United Nations Secretariat bears manifold implications for UNIDO. First, UNIDO will have to adapt to the new modalities of project implementation within the framework of national execution. Secondly, the trend towards decentralization in the United Nations system should prompt UNIDO to examine what activities and resources it can appropriately relocate to the field. Thirdly, UNIDO should work closely with the United Nations Department for Development Support and Management Services, the United Nations Conference on Trade and Development (UNCTAD) and other United Nations organizations and agencies so as to avoid duplication of effort and enhance complementarity. In fact, in exercising its mandate as the agency with the central coordinating role in the United Nations system in the field of industrial development, UNIDO should play a more active role in inter-agency coordination to help shape system-wide policies with an impact on the Organization's programmes and activities and to identify extrabudgetary sources of financing its operational activities. This will also enhance its role in implementing system-wide programmes, for example in the field of environment.

21. Finally, given the new role of UNDP, UNIDO must undertake proactive efforts, both in terms of mobilizing financial resources and in terms of programming initiatives which otherwise may only insufficiently and inadequately address the needs of industry. UNIDO should thus devote more attention to "upstream" conceptual work geared towards identifying priority needs, and elaborating and implementing strategic programmes in support of industrial development and related technological capacity building. On this basis, the Organization can become an effective player in country teams and ensure that industry and its priority subsectors are an integral element of the United Nations country strategies.

II. THE CHALLENGE FACING UNIDO

A. The mandate of UNIDO

22. Article 1 of the Constitution of UNIDO sets out the primary objective of the Organization as "the promotion and acceleration of industrial development in developing countries". The Organization shall also "promote industrial development and cooperation on global, regional and national, as well as on sectoral levels". The role of industrial development within the context of overall development and the establishment of a just and equitable economic and social order is reflected in the preamble to the Constitution, where it is clearly stated that "industrialization is a dynamic instrument of growth essential to rapid economic and social development, in particular of developing countries, to the improvement of the living standards and the quality of life of the peoples in all countries, and to the introduction of an equitable economic and social order". Against this background, UNIDO shall assume the central coordinating role in the United Nations system in the field of industrial development.

B. Strengths and weaknesses of UNIDO

23. Given the changes in the Organization's external environment outlined above, its programmes, procedures and internal structure have to be adjusted; the Organization's strengths need to be reinforced and its weaknesses overcome.

24. As a starting point for a reorientation in the priorities and services of UNIDO it is necessary to highlight the Organization's key weaknesses calling for remedial action. Foremost among these are the following:

- The diminished image and awareness of the Organization in many countries;
- The increasingly narrow financial resource base, both in terms of the regular budget and the operational income, and the unpredictability of future financial inflows;
- The difficulty of attracting top staff with current salary levels while the build-up of expertise in new service areas is urgently required;
- The lack of focus and specialization in the range of services provided by UNIDO;
- Organizational and management shortcomings such as over-emphasis on coordinating units, duplication, insufficient accountability of managers and lack of a team work culture;
- Procedural shortcomings such as cumbersome project approval processes and other lengthy and inefficient administrative routines;
- The inadequacy of the present system of field representation both in terms of country coverage and available resources.

25. As a combined result of these weaknesses, the broad range and variety of activities undertaken by UNIDO in recent years have not necessarily been linked to thematic priorities. They have tended to diffuse and disperse the Organization's programmes into a number of small projects and activities that bear little relationship to one another. As a consequence the overall impact of these activities has been limited and the image of UNIDO has become blurred. It has also resulted in a high degree of compartmentalization in the formulation and implementation of UNIDO programmes and projects, compounded by inadequate teamwork and coordination within the Organization. This pattern needs to be changed significantly through major reforms in administrative and management procedures, if the requisite level of quality and efficiency in the Organization's performance and

an adequate response to the requirements of Member States are to be achieved.

26. In designing a strategy aimed at responding to external challenges and tackling internal weaknesses, UNIDO can draw on some major strengths not found in other organizations dealing with industrial development. Above all these include:

- The status of UNIDO as a neutral, multilateral, non-profit organization with no commercial interests;
- The multidisciplinary capabilities and industrial expertise of its staff, comprising, inter alia, economists, technologists, subsector experts and investment specialists;
- The mandate for and experience in designing technical cooperation and promotional services for industry covering different target levels of intervention - policy, institutional and enterprise;
- A strong comparative perspective of international industrial development, including global information networks, comparative studies and access to experts and technology in both developed and developing countries;
- The capacity to provide specific, enterprise-level responses to pressing industrial development issues, such as the promotion and adoption of clean production concepts.

UNIDO also has extensive experience in the promotion of technology transfer arrangements and advisory services on technology policies and technology management, as well as the development of endogenous capabilities for technological adaptation and innovation.

C. Background for reform: informal consultations among Member States on relative priorities

27. During the recent informal consultations on the relative priorities within the medium-term plan 1994-1999, Member States reviewed the problems facing UNIDO and assessed the substantive objectives of the Organization. The following general objectives for the programmes of UNIDO were seen as particularly essential: human resource development; promotion of competitiveness of industry; international industrial cooperation by promoting foreign investment and technology transfer as well as regional and subregional cooperation; rehabilitation of industry; promotion of the private sector, especially small- and medium-scale industries; and ecologically sustainable industrial development. Furthermore, the range of relevant programme instruments was emphasized anew: technical cooperation; industrial investment and technology promotion; elaboration of industrial development policies and strategies; information services; studies and research; analysis and assessment of the industrial aspects of global economic change; policy forums and promotion of economic cooperation among developing countries (ECDC).

28. A series of recommendations related to principles for reform were put forward. Specifically, they included suggestions that:

(a) The programmes and activities of UNIDO should be more focused;

(b) Services should be demand-driven, focusing on the specific, differentiated needs of countries and regions;

(c) Efforts were needed to make UNIDO and its capacities and services better known to the Member States and to present overviews of its actual delivery of services;

(d) Project quality should be strengthened;

(e) The services of UNIDO should to a large extent address the institutional level and the major beneficiaries - small and medium enterprises - should be approached primarily through appropriate institutions;

(f) Closer contacts should be established with international and regional financial institutions;

(g) Management should be improved considerably at all levels;

(h) The organizational structure of UNIDO should be streamlined and ensure enhanced coordination.

III. MAIN ELEMENTS FOR REORIENTATION AND PRIORITIZATION OF THE SERVICES OF UNIDO

A. Reorientation and prioritization within the medium-term plan

29. The priorities and common elements as laid down in the current medium-term plan of UNIDO are listed below. They were first presented in these general terms in 1988 and established in 1989 for the period 1990-1995 and then continued for the period 1992-1997. They are now being considered for 1994-1999.

Human resource development;

Development and transfer of technology;

Industrial rehabilitation and modernization;

Small- and medium-scale industries;

Environment and energy;

Mobilization of financial resources;

ECDC and subregional industrial cooperation;

Integration of women in industrial development.

30. Although these priorities shall continue to be adhered to as general guidance for the programmes of UNIDO, it has become increasingly obvious to Member States and to UNIDO management that these priorities are not in themselves sufficiently geared towards a required sharpening of the focus of UNIDO. The need for greater adherence to the most critical needs of developing countries for UNIDO services in the light of its capacities call for a reorientation of programmes and a built-in selectivity of activities.

B. The emerging pattern of demand for UNIDO services

31. An assessment of the prospective demand for UNIDO services was made for the various developing regions. These assessments, however, need to be seen in their proper perspective. All of the regions reviewed are marked by a large, sometimes extreme internal heterogeneity in terms of the size, population, resource endowments and industrial development levels in individual countries. Accordingly, development disparities within all regions are great and even tend to increase over time. Demand patterns were considered primarily from the standpoint of functional themes emerging from current and expected trends in the industrial development process - both at the regional level and in terms of global interactions. Quite evidently, these initial demand assessments will need to be followed up at the country level and further substantiated on a recurrent basis.

32. The demand assessments show significant deviations in economic and industrial performance between Africa, Asia and the Pacific, the Arab region, Latin America and the Caribbean and the economies in transition in Central and Eastern Europe and the former Soviet Union. They also reveal major differences in demand depending upon the availability of natural, human and financial resources, the level of industrial, technological and institutional development, the progress achieved in the transition to deregulated market economies, and the level of internationalization and export performance.

33. In Africa today, the main demands stem from the need to strengthen and integrate more effectively the weak industrial structures and to promote the development of technical and managerial resources. Equally high priority has to be given to securing fuller participation in global trade and investment flows and to creating an environment conducive to private sector development. In Latin America and the Caribbean, the severe debt crisis of the eighties has for the most part been overcome. In the context of overall trade and investment liberalization, the challenge ahead is to regain industrial competitiveness and technological momentum so as to realize to the full the high potential for growth. In most countries in Asia and the Pacific, manufacturing industry has been the main engine of growth thanks to private sector participation, export orientation and the significant role played by foreign investment and technology inflows. Capabilities need to be strengthened so as to sustain high growth patterns over the long term. Countries in the Arab region are pursuing with great vigour the diversification from basic petrochemical industries into downstream industries and the build up of efficient small and medium industrial enterprises. In the countries of Central and Eastern Europe and the former Soviet Union, the overriding concern is to create an enabling environment, set up an efficient institutional framework and promote a dynamic entrepreneurial culture so as to carry through the initiated transformation process that has been set in motion.

34. The evidence available suggests a number of key themes to which industrial decision-makers across the various developing regions have recently accorded priority in enhancing industrial development. These will therefore shape the future demand for UNIDO services. These commonalities are:

(a) Commitment to maintaining or creating an enabling policy and institutional environment for sustained industrial development and international competitiveness, including the mobilization of investible resources;

(b) Broad emphasis on the private sector as the main agent for industrial development, with existing public sector manufacturing enterprises being privatized in significant numbers and, more importantly, new private investment being stimulated through the creation of conducive business environments;

(c) Great interest in the vast majority of developing countries, and in those in transition to a market economy, in the promotion of foreign investment and technology;

(d) Concentrated efforts to develop the technology and information systems needed by developing country industries;

(e) Recognition of the critical role of human resource development for industrial growth and competitiveness and, closely related thereto, greater emphasis on building up efficient industrial support services;

(f) Greater significance attached to the developmental role of small and medium enterprises, both as agents of employment creation, rural industrialization and poverty alleviation and in their function of creating efficient, interlinked industrial systems;

(g) Regional decentralization of industrial development as a counterpoise to past growth trends which favoured a few core regions and as a means of removing glaring income disparities and overcoming infrastructural constraints in the core regions;

(h) Renewed emphasis on intraregional industrial integration, with special emphasis being lent to trade, investment and technological issues;

(i) General awareness of the environmental impact of industrial development and the need to ensure the long-term environmental sustainability of industrial development.

35. Demand for the services of UNIDO exists in all subsectors of industry, yet it is quite clear that the Organization will have to respond in a focused manner. Most recent figures show that in 1992, total technical cooperation delivery in the four subsectors at present covered by the Department of Industrial Operations amounted to $61.5 million. Chemical industries accounted for 46 per cent of the total value of subsectoral projects, engineering industries for 27 per cent, agro-based industries for 17 per cent and metallurgical industries for 10 per cent. Short-term demand for subsectoral services is evident in the portfolio of advanced pipeline projects identified by the Department of Industrial Operations (as of August 1993) with agro-based industries representing 32 per cent of the value of all subsectoral projects, followed by engineering industries with 27 per cent, chemical industries with 24 per cent and metallurgical industries with 17 per cent.

36. The investment promotion activities of UNIDO display a pronounced concentration on agro-based industries which accounted for 40 per cent of all

industrial development projects successfully concluded. Furthermore, it is noteworthy that high-tech industries are taking on increasing significance in several regions. Many developing countries are seeking advice on their effective adaptation and diffusion as well as the support of UNIDO through its networking and broking services. This points to a certain convergence of production technologies across different subsectors which, in turn, means that expertise in those areas can be expected to have a substantial multiplier effect.

37. With the private sector assuming a greater role in industrial development in the developing countries, UNIDO will have to strengthen its ties and improve communications with private-sector entities. This is essential to ensuring that programmes and projects duly reflect the need to support development of the private sector. This should be pursued in a manner consistent with the role and mandate of UNIDO as an intergovernmental organization and in keeping with the priorities of Member States.

38. In the ultimate analysis, the demand for UNIDO services is determined by the recipient countries: developing countries and, within the availability of additional resources, economies in transition. In providing services, UNIDO should thus ensure that all its programmes and projects respond to effective demand. At the same time donor countries, although they do not determine demand, do have legitimate expectations in terms of the quality, cost-effectiveness, efficiency and sustainability of the Organization's services. UNIDO must thus ensure that the interests of all Member States are fully reflected in its activities.

C. Development objectives

39. In drawing up proposals for its restructuring, the Secretariat took the above trends into consideration and examined ways and means of responding to the changing requirements of the developing countries and how best to use the limited resources available in furtherance of its basic mandate. In planning the Organization's future and reforming its structure, the Secretariat endeavoured to determine the role of industrialization within the context of broader development objectives. Five specific and interlinked development objectives were identified:

(a) Industrial and technological growth and competitiveness;

(b) Development of human resources for industry;

(c) Equitable development through industrial development;

(d) Environmentally sustainable industrial development;

(e) International cooperation in industrial investment and technology.

40. These five objectives are seen to provide a conceptual rationale for the grouping of present and future demand and services, and they help to establish a link between the delivery of those services and the measurement of their developmental impact. They also help to strengthen the link with the relevant developmental activities of other United Nations and bilateral aid agencies, as well as with the endeavours of the recipient countries themselves. Those countries' strategies constitute the overall basis for programme and project development. The five development objectives are briefly reviewed below.

(a) Industrial and technological growth and competitiveness

41. Industrial and technological growth is a key prerequisite for the attainment of socio-economic growth and welfare by the developing countries. Through its impact on employment, income, consumption, export earnings and skill enhancement as well as its linkages to the primary and tertiary sectors, industrial growth remains the central issue for all countries. The build up of industrial growth capabilities in developing countries on a sustainable basis requires forward looking policies, capacities for generating and applying new technologies and efficient information systems as well as effective industrial support systems and services. It is through these indigenous capacities and related skills that developing countries can systematically pursue industrial growth and build up their current and future industrial competitiveness or "development strength".

42. International competitiveness in the field of industry is becoming an increasingly complex concept. In addition to enterprise-level requirements such as skills, information, technology and management, the concept of competitiveness covers the interplay of enterprises in production networks. In fact, it encompasses the entire national system for the production of goods and related services, as well as the existence of an overall enabling economic environment, including the ability to attract foreign investment capital. Developing countries recognize the need to ensure greater resilience in their industrial structures and to increase their ability to seize emerging opportunities and respond to change. UNIDO thus sees it is a fundamental objective to support developing countries in their endeavours to accelerate and sustain their industrial development over the long term. UNIDO can assist in upgrading industrial structures at the sector, subsector and enterprise levels. Specifically, it can provide services for: the mobilization of industrial investments, domestic and foreign; the creation of industrial support and service institutions; and the provision of catalytic inputs to the development and diversification of key industrial subsectors. Its services also cover the build up of technological capabilities, with special emphasis on: advanced and emerging industrial technologies; industrial restructuring, rehabilitation and privatization; small and medium enterprises as supporting industries; and institutional and policy measures for enhancing industrial competitiveness.

(b) Development of human resources for industry

43. With its broad connotations for the human dimension of development, human resource development is of primordial concern in the industrial context. It is an important precondition for, as well as a result of, industrialization. For UNIDO, it relates not only to educational and training systems at the national, regional and enterprise levels, but it is also closely associated with building up capabilities for the development, transfer and absorption of

technology, restructuring industry towards skill-intensive activities and industrial services, as well as a whole range of strategic industrialization issues. Central to the discussion of human resource development for industry are the need to create and upgrade continuously the skills, motivation and know-how required by industry and the need to utilize fully the human capabilities essential to achieving dynamic industrial growth. This is also borne out by the new patterns of industrial development and competition in the global economy which indicate that: (a) a high skill level is a key determinant of an economy's competitiveness; (b) human resource development is an essential part of a country's industrial structural adjustment process; (c) the ability of a country to upgrade and reconvert industry-related skills is a major instrument in combating unemployment; and (d) an economy needs enhanced and focused skill generation in order to seize opportunities in advancing industries and rapidly changing markets, as well as increase the pace of innovation in production. UNIDO has an important role to play in: providing services on policy and conceptual issues, including the assessment of changing skill requirements; strengthening institutions geared towards increased participation by industry itself; and developing managerial and entrepreneurial skills.

(c) Equitable development through industry

44. The objective of equitable development through industrialization means addressing the specific demands of the developing countries - in particular the least developed countries - for support in their endeavours to alleviate poverty and create industrial opportunities for all segments of the population. Indeed, as is generally recognized, the gradual transformation of an agrarian society into an industrial economy and the subsequent improvements in productivity are important mechanisms for combating poverty. While industrial development itself generates new employment opportunities and productivity growth, specific measures are sought by Governments to optimize the distributional and poverty-reducing impact of industrialization and the supply of essential goods. These measures include developing industrial entrepreneurship, increasing the participation of women in industry and creating industry-related employment opportunities in poverty-stricken regions through regional dispersal of industrial development and the promotion of small and medium enterprises and developing rural industries. In this context, many countries place particular emphasis on agro-industrial development. UNIDO should be able to respond to the demand for services in these fields and provide assistance as appropriate. Its services in this context may comprise, inter alia: assistance in entrepreneurship development programmes for industry, with special emphasis on women; support to institutional approaches such as industrial estates, common service facilities and business incubator schemes; promotion of subcontracting relationships between small and large enterprises; and support to the self-organization of small and medium enterprises, for example through the establishment of subsectoral associations. It should be recalled that the International Development Strategy of the Fourth United Nations Development Decade accords highest priority to the eradication of poverty, while both the World Bank and bilateral donors have launched major programmes in this area. UNIDO can thus expect to be relied upon in industry-specific matters in this context.

(d) Environmentally sustainable industrial development

45. The objective of environmentally sustainable industrial development reflects the international community's growing concern over the need to abate and prevent environmental pollution attributable to industry. It also reflects the need to utilize industrial capabilities to provide overall solutions for sustainable economic growth. In this context, the issue of a more efficient utilization of energy in industry assumes major importance. Quite evidently the required programmes and measures must evolve on a scale and within a time-frame commensurate with the capacities and resources of the developing countries. As new investments are made in various industrial sub-sectors, opportunities arise for incorporating higher resource-efficiency and lower pollution-intensity and the use of cleaner and environmentally more suitable technology and related know-how and services, as well as organizational and managerial procedures. Transfer of technology, human resource development and local capacity-building aspects of technology choice will thus be key issues for policy-makers in developing countries as they seek to harmonize environmental needs with those of industrial growth. Environmental considerations should be seen within the framework of national socio-economic and industrial priorities and resources. Given its central coordinating role in the United Nations system in the field of industrial development, UNIDO should assume a major role in assessing and promoting cleaner production technologies for industry and support the endeavours of developing countries to adopt those technologies in a cost-efficient manner. UNIDO will also be required to provide assistance at the enterprise level in implementing relevant international agreements, such as the Montreal Protocol.

(e) International cooperation in industrial investment and technology

46. With markets being liberalized and economies deregulated, international industrial cooperation is assuming increasing significance for all actors in the global industrial development process. At the enterprise level, international industrial cooperation continues to rely on foreign direct investment, technology transfer, strategic alliances and international subcontracting. At the institutional level, international industrial cooperation involves: twinning industrial research institutes, national quality and standardization centres or other centres of excellence in various countries; setting up or participating in joint research and development or human resource development programmes; and linking chambers of commerce, industrial associations and similar institutions in various countries through cooperation programmes. The objective of international cooperation in industrial investment and technology is thus directly related to the central coordinating role that UNIDO plays in the common system in the field of industrial development. Within this objective, economic and technical cooperation among developing countries (ECDC/TCDC) mechanisms will receive specific attention. The role and responsibility of UNIDO will be to lay down the foundations for such enhanced international cooperation in the field of industry. UNIDO can offer its services and help cooperation to get under way, in particular by assisting companies to identify potential partners, by providing information services and by offering a meeting place on "neutral ground".

Range of UNIDO services

47. The services which UNIDO would provide in the context of each of the above development objectives can be categorized as follows. First, in respect of all five objectives analytical activities and surveys will be required at the global, regional, country, subsector and issue-specific levels. Similarly, advisory services on industrial policy measures are essential to each objective, both in terms of creating an enabling environment and in terms of more specific incentives and support measures. Institution-building measures will continue to constitute a major category of services for building up technological, technical, management training, investment-related and other capacities. A fourth category will relate to the provision of information, statistical data and other international information on technology, investment, training and industrial policies and prospects.

48. Technical cooperation services will continue to be the main category of services across all development objectives. They will cover very specific fields of substance, encompassing enterprise management, technological advisory services by subsector and various technical services such as quality control and standards. Training activities are also undoubtedly a major category of service of particular significance to the development of human resources as well as to all other development objectives and related services. Industrial networking and broking services will assume major importance, especially in relation to international cooperation in industrial investment and technology. Finally, services which are specifically geared to the issues of small and medium enterprises and environmental protection may be seen as additional categories of services. All these service categories and their requirements in terms of specific professional specialization and orientation constitute the basis for the new organizational setting of UNIDO discussed below.

D. Prioritization of services

49. The emerging pattern of demand for UNIDO services and the five development objectives are the starting point for the reforms needed to ensure the continued relevance of UNIDO. They set the overall direction in which the Organization should now be pointed. However, in order to guard against an even broader range of services being offered than at present, a process of prioritization is required. The limited resources available will have to be focused on areas where an international organization of the scope and character of UNIDO can achieve the greatest impact. For UNIDO to respond to identified demand with high quality services, it will have to sacrifice comprehensiveness for selectivity. The selection criteria to be applied for this purpose include: present internal capabilities, major comparative advantages, country programmes and subsector specialization.

Present internal capabilities

50. The assessment of internal capabilities has short- and medium-term dimensions. For the short term, the particularly relevant substantive areas are those in which UNIDO displays recognized strength, where its staff are acknowledged experts in their fields, where programmes are deemed effective by beneficiaries and donors alike, and where funding flows are reliable and strong. For the medium term, additional areas can be identified, such as certain aspects of environmentally sustainable industrial development where UNIDO will need to supplement its services with additional resources by recruiting further specialists and providing additional inputs such as specialized staff training.

51. In order to avoid spreading the Organization's expertise and resources too thinly, it will be necessary to match the higher degree of specialization with a strategy for building up critical masses of expertise in the selected areas and adopting procedures that ensure maximum synergy between the various activities. The promotion and development of small and medium enterprises, for example, is widely acknowledged as an important area of activity for UNIDO. At the same time, it is a very complex issue that has to be approached on several levels using a wide variety of programme instruments. If UNIDO is to be effective, one or two generalists will not suffice: it will need a critical mass of specialists with an appropriate range of skills.

Major comparative advantages

52. Over the years UNIDO has built up comparative advantages in a number of fields. These form the basis for sharpening the focus of the Organization's work in the long term. They are also the source of any potential that UNIDO may have as a centre of excellence in selected aspects of industrial development. The Secretariat reassessed these comparative advantages. In that context, the industry-related activities undertaken by other specialized United Nations agencies and development finance institutions were reviewed and cooperation/coordination potentials identified. The following main pillars of the comparative strength of UNIDO were identified:

- A profound technological knowledge of most subsectors of industry, including agro-based industries, chemical industries, metallurgical industries and engineering industries, as well as of a broad range of industrial support institutions;

- A broad scope of services related to the creation of contacts and initiation of cooperation between industrial enterprises and institutions in different countries, including investment promotion and technology transfer activities;

- The research capacity needed to analyse emerging trends in industry at the global, regional and country levels and to translate the results into valid policy advice and promotional activities; and

- A wealth of information sources, networks and statistical data banks on all aspects of industrial development at the disposal of Member States and their industries.

53. By concentrating on these assets and developing further comparative advantages, UNIDO will be able to build up its image and reputation in the international industrial community as:

(a) A focal point for industrial technology;

(b) An honest broker for industrial cooperation;

(c) A centre of excellence on industrial development issues; and

(d) A global source of industrial information.

54. Another comparative advantage is the synergy derived from the Organization's ability to work at all three main target levels - Governments, institutions and enterprises. The institutional level is central to the work of UNIDO, with more than 50 per cent of all technical cooperation projects using it as a gateway to delivering services directed towards industrial enterprises as end-users. The other two levels are also important. About 30 per cent of all projects provide direct assistance to enterprises in the form of investment promotion, technology transfer, trouble-shooting, restructuring and management advice. It is to be noted, however, that most of these enterprise-level services involve public manufacturing enterprises and have often been pilot and demonstration projects. Some 10-15 per cent of projects address the policy level in terms of advising and strengthening government departments in policy design and implementation. High-quality policy advice and services related to building up industrial support institutions depend, however, on exposure to enterprise-level experience. The future role of UNIDO thus rests significantly on its ability to provide answers to subsectoral development challenges which combine services at all three levels of intervention. Specifically, UNIDO must include work at the increasingly deregulated and privatized enterprise level, if it is to remain professionally competent. Criteria can be drawn up to ensure that direct assistance to enterprises does not lead to unfair competition or individual appropriation of benefits.

Country programmes

55. In addition to concentrating on its assets, UNIDO will base its delivery of services on the industrial development strategies drawn up by individual countries. Those strategies will be analysed by the Organization whereafter UNIDO programmes for individual countries will be jointly defined with potential clients so that optimal support can be provided in a manner that takes due account of the capabilities and comparative advantages of UNIDO on the one hand and the country requirements on the other.

56. As a corollary to the country programmes, special emphasis will be placed on developing UNIDO programmes for regions and groups of countries most in need of UNIDO support. In view of the special problems confronting African countries in their efforts to implement their respective national and subregional programmes for the second Industrial Development Decade for Africa, particular emphasis will be given to developing and delivering effective UNIDO programmes for that region. The essentiality of this assistance is underscored by the fact that the vast majority of the least developed countries are to be found in the region.

57. UNIDO regional programmes will have to reflect changes in the political environment, such as the current developments in Southern Africa and Palestine. They will also have to establish a link between the programmes and sources of funds, a case in point being the additionality requirement related to new programmes of assistance to countries in transition.

Subsector specialization

58. With resources dwindling, it is recognized that UNIDO cannot afford to maintain a comprehensive range of expertise covering all industries: it must initiate a process of subsectoral specialization. In setting priorities, a two-track approach will be adopted. The fast track will apply the general criteria, listed below to assess the developmental impact of the different subsectors in various countries. The second and longer track approach introduces into the prioritization process a thorough analysis of subsectoral development trends and cooperation requirements. Thus, for the time being, UNIDO will maintain its four basic subsectoral pillars: agro-based, chemical, engineering and metallurgical industries. Further specialization will be governed by the following criteria:

- High growth potential;
- Share of subsector in aggregates such as manufacturing value-added, exports and foreign direct investment;
- Contribution to sustainable employment creation, equitable development and fulfilment of basic needs;
- Utilization of domestically available natural resources;
- Intensity of linkages to other industrial subsectors and sectors of the economy;
- Learning effects to be derived from mastery of specific technologies;
- Potential to increase net foreign exchange earnings through internationally competitive production.

E. Decentralization and field representation

59. The analyses undertaken by the Secretariat revealed the need to enhance the field representation of UNIDO. Comparison with other international and bilateral agencies and current trends in the United Nations system shows that at present UNIDO is relatively weak in this respect. Stronger field representation is necessary for a number of reasons. These include: the need to strengthen efforts to promote the services of UNIDO at the country level; the increasing heterogeneity of its clientele (Governments, UNDP, other donors, industry associations and financial institutions) entailing ever greater programme development, negotiation and coordination efforts; the desirability of reaching out to the various regions of a country in response to decentralization policies and the related demand for services; and the need to develop packages of integrated services in close consultation with different counterparts.

60. In order to achieve an effective field coverage, a minimum of 50 UNIDO Country Directors would appear necessary - a target set by the policy-making organs of UNIDO and recently confirmed by the Industrial Development Board at its eleventh session in its decision IDB.11/Dec.29. However, even maintaining the present number of 33 UNIDO Country Directors will require substantial additional financial resources. Given the current limits on traditional sources of funding, new financing

modalities will have to be explored, including voluntary contributions by Member States and the financing of local costs by host Governments. Furthermore, more headquarters staff could be outposted.

61. Another innovative alternative - to be applied on a pilot basis - would be the establishment of subregional offices. By covering a number of countries simultaneously, those offices could provide urgently needed advisory and programming services in a cost-efficient manner. Possibly comprising multidisciplinary teams providing information and selected substantive services, they should be set up in locations with adequate communications and transport infrastructure where subregional programmes are already under implementation so that the expertise available to those programmes can be drawn upon.

62. UNIDO country offices are of critical importance to the Organization's capacity to develop and deliver services. They also enhance the image of the Organization at the country level. Every effort should be made by all concerned to build up the field presence of UNIDO. Furthermore, staffing those offices must become an integral part of the Organization's overall personnel planning and career development system.

F. Mobilization of financial resources

63. Financial resources are required in order to turn potential demand into effective demand, yet the Constitution of UNIDO only provides for regular budget financing of technical cooperation in the amount of 6 per cent of the total of the regular budget. Therefore, if UNIDO is to deliver the quantity and quality of services requested by developing countries, those services will have to be funded from extrabudgetary sources. Given the decline in traditional sources of funds, such as UNDP, and in view of the greater role being assumed by the private sector as a recipient of UNIDO services, it is essential that the Organization strengthen its fund-raising capabilities in support of technical cooperation. It should focus on such sources as the Industrial Development Fund (IDF), trust funds and special funds, and devote sufficient staff resources to that end.

64. In order to be able to secure the funds required for technical cooperation, UNIDO will have to (a) improve its field representation; (b) develop a closer dialogue with donor Governments and institutions; and (c) design and implement high-quality projects responding to the needs of recipient countries.

65. The fund mobilization activities of UNIDO will be initiated, coordinated and monitored by a single focal point in the Secretariat and organized according to target groups (as opposed to funding mechanisms). A distinction will thus be made between the United Nations system, development finance institutions, donor Governments and industrial associations and enterprises, as these groups differ in terms of their objectives, resources and capabilities and require tailor-made approaches by UNIDO to stimulate cooperation. To ensure that the funds available are promptly mobilized, adequately used and effectively accounted for, communication channels with contributors will be improved, appraisal and project management mechanisms reviewed and evaluation and auditing functions strengthened.

IV. A NEW ORGANIZATIONAL STRUCTURE

66. The restructuring of UNIDO entails three primary tasks: (a) a reassessment and redefinition of the key functions needed for a sharper focus of the Organization's services and substantive capabilities; (b) the build up of an organizational structure reflecting both the substantive focus and the need for a lean, less hierarchical organization; and (c) an effective, quality-determined delivery of services in response to identified demand. Restructuring UNIDO to meet projected demand in an effective and efficient manner will thus not only include changes in the organizational structure, but will also entail the reform of administrative and management procedures.

67. The principles underlying the proposed new organizational structure are as follows:

(a) Reorientation of functions according to changing demands and priorities;

(b) Effective integration and coordination of various functions and activities currently dispersed throughout the Organization;

(c) Design of a limited number of units constituting a critical mass of specialized expertise that can carry out clearly defined and focused activities;

(d) The organizational units and formal clusters of units should not be self-contained entities. If UNIDO is to deliver effective solutions to complex problems, it should be able to design and deliver service packages that will often require team building;

(e) The organizational structure should provide enough flexibility to enable UNIDO to adapt to changing circumstances and respond swiftly to emerging demands;

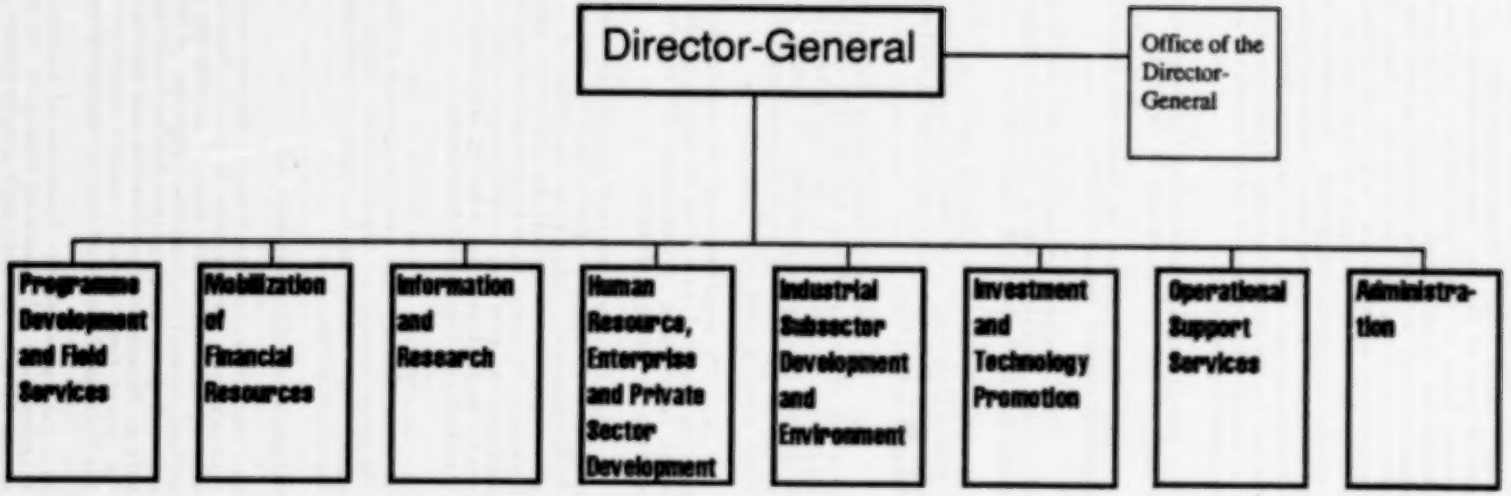
(f) The new structure should bring about maximum efficiency in the allocation and use of staff resources, inter alia, by reducing administrative, coordinative and senior management positions in order to maintain and strengthen substantive technical capabilities. The structure should be flattened by reducing the number of intermediate layers of supervision.

68. In addition to the Office of the Director-General, the new structure provides for the establishment of organizational units, each comprising a number of functions as indicated in the chart below.

Office of the Director-General

69. The Office of the Director-General will be restructured. Besides the Strategic Planning Office, Internal Audit, Evaluation and the Legal Office, it will include the functions of Policy-making Organs, External and Public Relations as well as Management Coordination and Monitoring. The latter function will support coordination by the Director-General of the various programmes.

70. Incorporating the functions of External Relations and Policy-making Organs in the Office of the Director-General will ensure better communication and coordination with Member States, international organizations and NGOs, as well as make for a closer and more effective linkage with



Functions: *)

- Regional Desks
- Country Strategies and Policies
- Programme and Project Development and Appraisal
- Field Services

- United Nations System
- Development Finance Institutions
- Governments
- Industrial Sector

- Industrial Information
- Industrial Statistics
- Industrial Studies and Research
- Publications and Information Products

- Human Resource Development
- Enterprise Development and Restructuring
- Small and Medium Enterprises

- Industrial Subsectors
- Environment and Energy

- Investment Services
- Technology Development and Acquisition
- International Industrial Cooperation

- Project Personnel Recruitment
- Purchase and Contracts

- Finance
- Personnel
- General Services

*) Functions do not necessarily imply organizational units

basic UNIDO concepts and policies formulated by the Strategic Planning Office.

Programme Development and Field Services

71. Particular attention will be paid to a strong country focus and a close continuing relationship with Member States. The current area-programming structure will be substantially modified. Programme Development and Field Services will ensure that: (a) regional- and country-level developments are regularly assessed and country data updated, while close and constant contacts are maintained with country representatives; (b) information on UNIDO programmes at the country level is collected centrally and made available upon request to Member States; (c) country industrial strategies and policies are analysed; (d) the demand for UNIDO services by country is assessed, and integrated UNIDO programmes of services are drawn up; and (e) project proposals are approved, in the light of country strategies as well as on grounds of their relevance, cost-effectiveness and sustainability. Field representation will be the direct responsibility of this organizational unit. Special consideration will also be given to the needs of the least developed countries and to the issue of women in industrial development.

Mobilization of Financial Resources

72. This organizational unit will integrate all activities related to funds mobilization. It will bring together the funds-related functions of the present Area Programmes Division, with those of the units dealing with the mobilization and management, promotion and management of IDF, trust funds and special funds such as those related to the environment (the Global Environment Facility, Agenda 21, the Montreal Protocol and others). It will also develop and offer services to the United Nations system, Governments (in connection with contributions to IDF and trust funds), development finance institutions and industry (through self-financed trust funds).

Information and Research

73. An important aspect of the restructuring exercise will be the increased emphasis to be placed on the dissemination of industrial information, including information on new technologies and potential sources for investment and technological cooperation. This organizational unit will operate and link a number of UNIDO databases and information networks, as well as assist in the development of national information systems. It is considered essential that these activities be integrated with those of industrial statistics and the global and subsectoral studies and research to be undertaken by the Organization. The studies and research function will cover: global industrial developments; trends in investment and technology flows; new technological developments; developments in management techniques and applications, sectoral developments and trends, and other global developments with an impact on industrialization. The organizational unit will also be responsible for all publications and information products.

Human Resource, Enterprise and Private Sector Development

74. This organizational unit will be responsible for human resource development programmes and related analytical work, as well as a range of services in support of enterprise and private sector development. Specifically, it will coordinate the programme on small and medium enterprises, including rural industrial development, as well as provide enterprise rehabilitation, restructuring and privatization services. These enterprise development services will be delivered through industrial support institutions and industrial associations, as well as directly to enterprises. They will include services related to quality control and industrial standardization and calibration.

Industrial Subsector Development and Environment

75. This organizational unit will constitute the subsectoral arm of UNIDO. It will provide various functions and services relating to a range of industrial subsectors. The services will extend from institutional assistance to technological support at the level of specific subsectors. It will also be responsible for the environment programme of UNIDO directed towards harmonizing environmental needs with those of industrial development, including environmental protection, hazardous waste reduction and disposal, use of clean production technologies, and energy conservation and efficiency.

Investment and Technology Promotion

76. This organizational unit will be responsible for the mobilization and promotion of internal and external investments. Its programmes will be considerably expanded. They will draw on the Organization's expertise in the field of preinvestment and feasibility studies, as well as on the services of its investment promotion offices. Direct contacts will be established between specific groups of potential partners from developed and developing countries. The organizational unit will also be responsible for technology management, development of technological capabilities and technology choice, ranging from traditional to new and emerging industrial technologies. In addition to establishing international technology centres, it will also promote the transfer of technology through support to the negotiation, acquisition, absorption and adaptation of industrial technologies. Programmes for industrial and technical cooperation between developing countries will be accorded particular emphasis. The present System of Consultations will be reoriented towards promoting and supporting international industrial cooperation. Its function will be to establish and strengthen partnerships between industrial services and research institutions, industry associations and chambers of commerce, as well as between regions within different countries (region-to-region cooperation). Particular emphasis will be placed on enhancing ECDC/TCDC mechanisms.

Operational Support Services

77. Operational support services cover project personnel recruitment and purchase and contracts services related to programme and project implementation.

Administration

78. Administration shall basically comprise three functions: finance, personnel and general services.

Implications of the new structure

79. The organizational structure outlined above implies a significant departure from the structure which has prevailed in UNIDO over the past few years. It reduces the number of decision-making levels by abolishing the five posts of Deputy Director-General. A number of D-2 posts with appropriate geographical representation will constitute the first management level under the Director-General. This bears several implications. First, reducing costs by eliminating the Offices of the Deputy Directors-General will permit the reallocation of resources to priority activities. Secondly, increased decision-making authority and accountability will devolve upon the Directors of the major organizational units as they will report direct to the Director-General. Most matters related to administration and resource allocation will be decided upon at the level of those units and only policy issues, large projects and major commitments will be referred to the uppermost level of management. Overall coordination of the various programmes will require close attention at all levels, including that of the Director-General. However, coordination will be greatly facilitated by better functional structure and transparency and fuller use of information systems across programmes, with support being lent by a small management coordination and monitoring unit in the Office of the Director-General. Thirdly, current coordination mechanisms such as the Programme and Project Review Committee and the Executive Management Committee will be further enhanced.

80. Clearly, the new organizational structure is closely linked to managerial and procedural reform. The latter will enhance both efficiency and transparency, thus reducing the overall task of coordination facing the Office of the Director-General. In this context, specific reference can be made to decentralized decision-making processes, unified project appraisal and approval procedures, improved horizontal information and communication flows, as well as strengthened and more cohesive substantive programmes. Furthermore, the concept of UNIDO country strategies to be elaborated and coordinated in Programme Development and Field Services implies a significant reduction in coordination requirements, thus enabling the Office of the Director-General to concentrate fully on the core functions of executive management.

V. IMPROVED MANAGEMENT AND PROCEDURES: AN AGENDA FOR REFORM

81. An essential aspect of restructuring will be the application of sound management procedures and operational systems in implementing the activities of UNIDO. This issue has to be viewed in the context of enhancing staff skills and capabilities, ensuring quality management, rationalizing and decentralizing decision-making, improving coordination and team work, and developing a flexible administrative structure.

A. Staff as the principal resource

82. The Organization's main asset is its staff. The new demands for UNIDO services may, however, require professional backgrounds and fields of competence that differ in part from those at present available. Recruitment policies and career development should thus take into account both the professional requirements of the Organization and the career aspirations of staff, as well as the need to ensure job satisfaction. The existing staff rules and procedures will need to be continuously monitored and reassessed in order to guarantee that professional competence and performance quality are the main parameters governing recruitment and promotion.

83. The restructuring process will demand both redeployment and selective recruitment of staff with a focus on young and competent professionals. Highly selective recruitment criteria based on professional competence will have to be applied so as to ensure the excellence of the Organization's services. Staff will need to be trained and their technical knowledge and skills upgraded, both within the Organization and without, if UNIDO is to maintain its professional standards. A professional approach to redeployment at any time will have to be adopted. Furthermore, steps will have to be taken to promote the movement of staff between Headquarters and the field offices, with the principle of rotation being directly related to promotion and career development.

84. The Organization will face the major task of effecting a crucial change in the prevailing management culture with a move towards a genuine concern for and involvement of staff at large. The bureaucratic "role" culture will have to yield to an effective "task" culture. The individual performance appraisal of both managers and other staff will have to be substantially revised and due heed paid to rewarding team work.

B. Quality management

85. In order to ensure optimal quality of its services, UNIDO will adopt a quality management system characterized by clearly defined responsibilities at different hierarchical levels. Quality checks will be built into UNIDO activity, including all stages of the programme and project cycle as well as the provision of information and other services. This aspect of the Organization's delivery has to be guaranteed by assessing the output of individual staff members within the context of the work performed by their units and the contribution of individual units to the overall output of UNIDO. Special attention will be paid to the processes through which UNIDO provides its services.

86. Specifically, the programme and project cycle will comprise the following stages which require careful monitoring: (a) preparation, together with the recipient country, of a UNIDO programme identifying the role of UNIDO and the services it will provide, based on a thorough analysis of the country's industrial development strategy; (b) analysis of the local institutions' development programmes, their requests for UNIDO technical services and an early decision and reply on the type of service that UNIDO can effectively provide; (c) establishment of a team which will design (and later carry out) the concrete proposal under the responsibility of a substantive programme or project manager; (d) approval of the project proposal, after thorough appraisal; (e) agreement with both client and funding source on the proposal submitted; (f) assignment of adequate financial and human resources for the implementation of the project; (g) actual implementation of the project; and (h) feedback of results into subsequent activities of UNIDO, including overall policies of the Organization.

87. The quality management of the programme and project cycle will be ensured by providing advisory services at those hierarchical levels that bear primary responsibility for developing and delivering UNIDO services. Furthermore, appraisal, quality consciousness and quality control will be built into the various substantive functions, with a central quality assurance unit providing methodological support and guidance.

88. Timeliness of delivery is an important factor that adds to the quality of the services provided by the Organization. In order to achieve adequate efficiency in this regard, procedures will have to be rationalized. Special emphasis will thus be put on applying modern information collection, processing and dissemination systems based on such criteria as access, speed and relevance and improving internal communication procedures. An efficient horizontal flow of management information will have to be assured as a tool for the more effective coordination of interrelated activities in different organizational units. An enhanced information system will also assume the function of an institutional memory providing rapid access to past experience and expertise.

C. Rationalization and decentralization of decision-making

89. Too many layers of supervision tend to complicate and delay the decision-making process without improving output quality. In the new organizational structure, the decision-making process will be limited, as far as possible, to two levels of supervision. Precise terms of reference will be drawn up for each organizational unit so as to facilitate quality assessment of the outputs produced and enhance management accountability. A detailed assessment and subsequent rationalization of existing work procedures will be undertaken to avoid overlap and inefficiencies.

D. Coordination and team work

90. Coordination and cooperation between and within organizational units will be enhanced through team work. Modern management methods will be adapted to the UNIDO context so as to permit the evaluation of the individual's contribution to the work of his/her team and the team's contribution to the work of the Organization.

91. Better coordination will be possible if clear terms of reference reflecting the outputs expected of each unit are provided and the processes for delivering services are carefully streamlined. The assessment of an organizational unit's performance solely on the basis of monetary delivery (the so-called PAD* syndrome) will be discontinued. The designation of project managers and team leaders will be the responsibility of supervisors. Human and financial resources will be assigned to units according to the priorities and strategies of the Organization as a whole.

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* Project allotment document.

E. Flexible administrative structure

92. The new organizational structure should offer UNIDO enough flexibility to adapt to changing circumstances without having to embark upon an organizational reform each time adjustments have to be made. "Core" managerial and technical staff should be supported by a system of "variable" expertise needed to meet new or emerging trends in the demand for the services of UNIDO. The Organization should also maintain maximum flexibility so that financial and human resources can be allocated to support programmes on an ad hoc basis in response to urgent demands. Adequate resources will need to be secured for this purpose.

VI. TOWARDS A SUCCESSFUL REFORM PROCESS

93. The reorientation and organizational restructuring of UNIDO will inevitably involve several critical adjustments. In the future it will call for substantive leadership, commitment, imagination, flexibility and support, particularly in terms of developing services and mobilizing staff and financial resources. For its part, in addition to the changes discussed above, the Secretariat will have to undertake a detailed review of activities and procedures in Administration. It will also be necessary to expand the recently initiated economy drive so as to maximize internal savings. Furthermore, the budget will need to be reconfigured in order to take changing needs and priorities into full account within the approved limits. Revised procedures for financial management and reporting will have to be developed, together with modern information systems and communications. Moreover, it will be necessary to allocate personnel to each of the new organizational units and ensure that competent staff assume key managerial functions. Finally, an assessment will be required of the need to strengthen certain substantive fields so that a critical mass of specialized capability is assured.

94. Member States should bear in mind that time and sustained support are essential to an effective reform process. The substantial reorientation of the priorities, organizational structure and procedures of UNIDO is expected to have a major positive impact on the Organization's performance and its effective response to the needs of Member States in the challenging task of promoting the industrialization of the developing countries. It is also expected to transform the image of the Organization and its perception by Member States into one of a modern service-oriented and quality-conscious agency at the leading edge of international industrial issues and expertise. However, this can only be achieved by Member States extending their full and unstinting political and financial support to the reorientation and restructuring of UNIDO.

VII. ACTION REQUIRED OF THE BOARD

95. The Board may wish to consider and approve the proposals contained in the present document and recommend approval thereof to the General Conference.